

1 A. Failing to fully remove retail costs would create a wholesale rate level that is too  
2 high. This would distort competition and artificially depress entry. The effect  
3 would be to deny consumers the benefits of competition -- lower prices, more  
4 choices and the ability to vote their dollar between rivals vying for their attention.

5  
6 It is useful to remember that although the immediate recipient of a wholesale  
7 discount is the local reseller, the ultimate beneficiaries are consumers. An  
8 artificially low wholesale discount will not lead to lower retail prices. In other  
9 words, the smaller the discount, the less competitive pressure to lower prices.

10

11 Q. ARE THERE ANY MARKET "BENCHMARKS" TO JUDGE THE  
12 REASONABLENESS OF THE PROPOSED DISCOUNTS?

13 A. Yes. In the long distance market there is a competitive wholesale market that  
14 actively solicits retail carriers with attractive wholesale pricing and operational  
15 systems specifically designed for resale. It is useful to consider the discounts that  
16 the RBOCs have trumpeted to Wall Street analysts to place the local wholesale  
17 discounts discussed in this proceeding into context.

18

19 For instance, NYNEX recently indicated to Wall Street analysts that it anticipated a  
20 80% discount on the long distance services it buys at wholesale. (Source: Dean  
21 Witter, November 6, 1995.) Further, Merrill Lynch (Merrill Lynch, August 24,  
22 1995) states:

23

24 reseller spreads in long distance are already huge (50%) given the  
25 existence of four fiercely competitive long distance networks.

30

1

2

Merrill Lynch also predicts that:

3

4

For calls terminating outside an individual RBOC's franchise area,

5

that RBOC will be able to bargain for volume discounts given that

6

its volumes are likely to exceed that of any other long distance

7

customer in that region -- *discounts that are likely to grow over time*

8

*as RBOC long distance shares and thus negotiating leverage grows.*

9

10

Emphasis added.

11

12

The point here is simple: where *competition* decides the wholesale discount, that

13

discount is large and is expected to increase.

14

15

#### **IV. UNBUNDLED NETWORK ELEMENTS**

16

##### ***A. The Nature Of Unbundling***

17

18

**Q. PLEASE DEFINE "UNBUNDLING."**

19

**A. Unbundling refers to the offering of discrete elements of the incumbent's network as**

20

**generic functionalities, not as finished services. These network elements are**

21

**"unbundled" from each other (i.e., they can either be purchased separately or in**

22

**combinations) and from the retail services of the incumbent LEC (i.e., the finished**

23

**service is decided by the purchaser of network elements, not BellSouth).**

24

1 A useful metaphor for unbundling is that of the "Chinese Restaurant." Chinese  
2 restaurants typically have extensive menus, detailing dozens of selections. Yet, in  
3 the kitchen, only a few basic ingredients are used to create all these choices.  
4 Similarly, telecommunications services are typically constructed from a limited  
5 number of key ingredients (switching and transmission are the most basic), but the  
6 variety of services (from the consumer's perspective) can be quite extensive.  
7 Unbundling represents the availability of the incumbent's network elements as  
8 ingredients to other providers so that they may combine these ingredients  
9 (sometimes adding their own, sometimes not) to provide their own finished services.

10

11 **Q. IS UNBUNDLING THE SAME AS RESALE?**

12 A. No. Resale involves the purchase of *finished services* by the reseller from the  
13 incumbent LEC (albeit at wholesale rates) which are then resold by the reseller.  
14 Unbundling is the purchase of underlying *network elements* -- which may be  
15 facilities, functions or capabilities -- that can be combined to offer services, either  
16 equal to, or different from, the services of the incumbent LEC.

17

18 **Q. WHAT ARE THE POTENTIAL BENEFITS FROM UNBUNDLING?**

19 A. There are three primary benefits. First, opening the incumbent's network to other  
20 carriers as a menu of generic ingredients will make robust competition possible  
21 despite the dominance, if not complete monopoly, of the incumbent LEC's network.  
22 New entrants could fashion service packages not now available, providing  
23 consumers additional choices.

24

1 Second, unbundling allows carriers to sequentially replace individual components of  
2 BellSouth's network as competitive networks slowly develop. The enormity of  
3 BellSouth's network necessarily implies that the process of facilities deployment  
4 will take time, and will occur unevenly throughout its region. However, through  
5 unbundling, carriers will have an opportunity to develop markets, establish services,  
6 and attract consumers on a timely basis in the *entire* market, with the process of  
7 facilities-deployment following wherever economic.

8  
9 Third, with unbundling there will be substantially more choices at the end of the  
10 process than would result if each individual entrant had to construct network  
11 facilities in order to offer services. Unbundling prevents local network deployment  
12 from becoming a prerequisite to offering service, both for today's entrants and new  
13 providers that may form in the future. By creating an open entry environment,  
14 investment capital can be directed to developing new services and applications,  
15 rather than used exclusively to replicate transmission and switching facilities. By  
16 eliminating barriers to entry, the most diverse competitive environment will develop.

17  
18 Thus, unbundling has the potential for *immediate, transitional and long lasting*  
19 benefits for the local exchange market and South Carolina consumers. What matters  
20 most at the end of the process is that multiple carriers have the opportunity to  
21 broadly approach the South Carolina marketplace, designing services which they  
22 believe best satisfy the needs of their customers, on an economic basis similar to that  
23 of BellSouth, and fully supported by operational systems which will easily  
24 accommodate choices by consumers.

1 A full description of the most fundamental elements that should be unbundled  
2 immediately is provided in the testimony of AT&T Witness John Hamman.

3

4

***B. The Economic Pricing Of Network Elements***

5

6 **Q. HOW SHOULD NETWORK ELEMENT PRICES BE ESTABLISHED?**

7 **A.** Network element prices set at forward looking, long-run incremental costs will yield  
8 the greatest choice and benefits to South Carolina consumers. To maximize  
9 competition -- that is, to promote an environment that will present South Carolina  
10 consumers with the greatest diversity of pricing plans, calling options, and service  
11 features -- it is important that the underlying exchange network be available to *all*  
12 retail providers of local exchange services on the same terms, conditions and prices.

13

14 There are only two ways to assure that all providers have access to the exchange  
15 network on equivalent terms. The first is to prohibit the network owner from  
16 offering competitive services at all. This was the basic approach that underlaid  
17 divestiture; for obvious reasons I am not recommending that action here.

18

19 In the absence of such structural protection, however, the only viable mechanism is  
20 to establish prices of the underlying network components at their forward looking,  
21 long-run incremental cost. The key is to make the network available to all providers  
22 on equivalent terms. For the incumbent LEC, this is the element's Total Service  
23 Long Run Incremental Cost (TSLRIC). Because carriers are purchasing *elements*  
24 and not finished *services*, the FCC has adopted the term Total Element Long Run  
25 Incremental Cost (TELRIC) to emphasize this distinction. So that all providers face

1 the *same* effective cost for the use of the network, the *price* charged other carriers  
2 must be equal to the forward looking, long-run incremental cost. AT&T witness  
3 Michael Harper provides additional details concerning the appropriateness of  
4 TELRIC pricing for network elements.

5  
6 **Q. DOES PRICING NETWORK ELEMENTS AT TELRIC IMPLY THAT**  
7 **BELLSOUTH WOULD NOT BE ALLOWED TO EARN A PROFIT OR**  
8 **COVER ALL OF ITS ECONOMIC COSTS?**

9 A. No. First, (TSLRIC) includes a return on investment sufficient to attract and retain  
10 capital. Although commonly referred to as "profit," the "cost of capital" is a  
11 legitimate economic cost and is included in TELRIC.

12  
13 Second, under the TELRIC methodology adopted by the FCC, the price of network  
14 elements should collectively recover the forward looking, long-run costs of  
15 providing network elements, including the costs of the managerial and  
16 administrative functions necessary to support these network elements. These  
17 managerial and administrative costs, while directly caused by network elements in  
18 the *aggregate*, however, cannot be attributed *individually* to specific network  
19 elements. Because of the presence of these "forward looking common costs" of  
20 providing network elements, the FCC's rules permit the price of each *individual*  
21 network element to be increased above its individual TELRIC to recover a portion  
22 of the *network-element-related* common costs.

23  
24 **Q. ARE ALL COSTS INCURRED BY BELLSOUTH INCLUDED IN THE**  
25 **TELRIC?**

1 A. No. There is a category of costs -- the costs associated with product development,  
2 marketing, and advertising that support BellSouth's retail operations, as well as  
3 financial and managerial costs that would be incurred whether BellSouth owned and  
4 managed its network or not -- that have no relevance to the costing of network  
5 elements. These costs are not incurred to provide network elements or functions.  
6 However, this does not mean that these costs will go unrecovered. It only means  
7 that BellSouth must be as efficient as its rivals, who must recover similar costs in the  
8 prices of their services.

9

10 ***C. Carrier-To-Carrier Interconnection***

11 ***Arrangements And Consumer Rate Levels***

12

13 **Q. HOW CAN FULL IMPLEMENTATION OF THE ACT BE EXPECTED TO**  
14 **BENEFIT CONSUMERS?**

15 A. The Act is fundamentally about choice. Choice for consumers is made possible  
16 through the interconnection agreements arbitrated by this Commission that will  
17 underlie the service offerings of new entrants. This is why correctly arbitrating such  
18 carrier-to-carrier arrangements is so important -- these interconnection agreements  
19 ultimately translate to the choices and price levels that consumers experience. Much  
20 as the visible contours of the earth's surface (its mountains, valleys and plains) are  
21 determined by underlying geographic conditions, so too will consumer choices and  
22 prices be decided by the underlying conditions of this Commission's arbitrated  
23 interconnection agreements.

24

1 Q. HOW WILL PRICES FOR UNBUNDLED NETWORK ELEMENTS  
2 INFLUENCE RETAIL RATES?

3 A. BellSouth's competitors will use unbundled network elements to provide local  
4 exchange services to consumers and exchange access services to other carriers.  
5 With correctly priced network elements and local call termination (which is to say,  
6 prices based on forward looking, long-run incremental cost), these entrants will be  
7 able to offer -- and competition will force successful entrants to offer -- local  
8 exchange services at prices no higher than today's prevailing (i.e., BellSouth's)  
9 rates.

10

11 Importantly, once competition is established by entrants offering service using  
12 unbundled network elements and call termination, the existence of multiple  
13 providers of local exchange services will constrain BellSouth's own pricing  
14 behavior. BellSouth will not be able to raise local exchange prices because  
15 consumers will have a choice of other providers. There is simply no consumer  
16 protection stronger than the ability to "take your business elsewhere."

17

18 However, the entire basis for the above conclusion is that the network element and  
19 call termination arrangements used by the entrant are priced at forward looking,  
20 long-run incremental cost. If so, then the entrant and BellSouth each will face the  
21 same underlying cost of the facilities needed to provide service. So long as these  
22 carrier-prices facilitate profitable initial entry, then competition should provide  
23 sustained pressure on price levels in the future.

24



1 Q. WHAT WOULD HAPPEN IF THESE PRICES ARE INFLATED ABOVE  
2 THEIR COSTS?

3 A. The result would be higher consumer prices and fewer choices. BellSouth would be  
4 able to increase the costs of its rivals, limiting their ability to compete with lower  
5 prices.

6

7 Q. IS THIS WHY THE COMMISSION SHOULD MAKE SURE THAT  
8 UNBUNDLED NETWORK ELEMENT AND CALL TERMINATION  
9 PRICES ARE ESTABLISHED CORRECTLY?

10 A. Yes. The Act begins a fundamental shift in regulatory focus from *directly* setting  
11 retail prices and service dimensions (such as the size of local calling areas) of local  
12 exchange carriers, to *indirectly* influencing retail services through the review of the  
13 underlying carrier-to-carrier arrangements. If unbundled network elements and call  
14 termination prices are correctly established, then both BellSouth and other providers  
15 will be able to compete upon a common foundation, at least with respect to the cost  
16 of the underlying network.

17

18 Q. PLEASE DESCRIBE THE TRANSITIONAL SURCHARGE THAT HAS  
19 BEEN STAYED.

20 A. The FCC adopted a transitional surcharge equal to the sum of two interstate access  
21 rate elements: the carrier common line charge (CCLC) and 75% of the "transport"  
22 interconnection charge (TIC). The first surcharge, the CCLC charge, recovers a  
23 portion of the cost of local loops that had been assigned to the interstate jurisdiction.  
24 The second, the TIC, is an interstate charge designed to provide BellSouth with

1 "revenue neutrality" when transport rates were restructured. The FCC Rules that  
2 would have permitted BellSouth to impose this surcharge have been stayed.

3  
4 **Q. WHAT WOULD HAVE BEEN THE IMPACT OF THE FCC'S**  
5 **SURCHARGE?**

6 **A.** The FCC's surcharge would have significantly reduced the value of unbundled  
7 local switching as a viable option to broadly approach consumers. Using interstate  
8 data provided in BellSouth's 1996 interstate price cap filing, I estimate that the  
9 increase in cost caused by the FCC's interim plan would have been approximately  
10 \$3.82 per subscriber line served by an unbundled switch. This interim surcharge  
11 would raise the *cost* to other carriers to offer local exchange service -- and,  
12 ultimately, the *price* that would otherwise exist for local exchange service paid by  
13 consumers -- by almost \$4.00 per line. As noted, this portion of the FCC Rules was  
14 stayed. However, to prevent any misunderstanding, this Commission should clearly  
15 prohibit, even for an interim period, any additional surcharge on unbundled local  
16 switching.

17  
18 **V. LOCAL CALL TERMINATION**

19  
20 **Q. ARE ACCESS AND CALL TERMINATION IDENTICAL?**

21 **A.** Yes. The functionality to terminate a call is the same whether the call is classified  
22 as a "local" call or a "long distance" call. A pricing issue arises, however, because  
23 the charges to long distance carriers to terminate toll traffic (i.e., access) are far  
24 above cost.

1 Q. WHY ARE CALL TERMINATION PRICES SO IMPORTANT?

2 A. The prerequisite to any form of telecommunications competition is the ability to  
3 complete calls to other subscribers, virtually all of whom (within BellSouth's  
4 exchanges) are served by BellSouth. In this regard, the introduction of local  
5 competition is not unique. Whether a call is labeled local, or long distance, it still  
6 must be terminated to the customer.

7  
8 Q. WHY IS IT IMPORTANT THAT RATES FOR TRAFFIC TERMINATION  
9 ULTIMATELY BE THE SAME FOR "LOCAL" AND "LONG DISTANCE"  
10 TRAFFIC?

11 A. One of the potential benefits of full service competition is competitively determined  
12 "local" calling areas. In a competitive market, the "local" calling area should  
13 become an important dimension of product differentiation, with carriers offering a  
14 variety of price and boundary packages to consumers.

15  
16 The key to establishing competitively determined local calling areas is correctly  
17 pricing access/termination service so that a carrier's cost to complete a call is not  
18 dependent upon BellSouth's retail classification. If both access (for "toll") and  
19 termination (for "local") charges are the same, then carriers will be free to design  
20 products with differing boundaries, with the goal to attract subscribers by offering a  
21 "better" local calling area.

22  
23 Such an environment, however, absolutely requires non-discriminatory termination  
24 rates that do not attempt to differentiate between types of calls. Otherwise, all  
25 carriers would have their cost-structure defined by BellSouth's retail rate structure --

40

1 a low cost to terminate a "local" call, a higher cost to complete a "toll" call -- and  
2 BellSouth's local calling boundaries would dominate the market.

3  
4 A far better outcome is based on non-discriminatory, cost-based charges for call  
5 termination, irrespective of any *label* on the call. With such non-discriminatory  
6 charges, carriers would be free to decide the scope of their own local calling areas,  
7 sizing these areas to match their own perception of the market and to reflect their  
8 own pricing and marketing strategies. In this way, the market -- which is to say,  
9 *consumers* -- would decide the size and shape of the local calling area as carriers  
10 compete along this important dimension of service.

11  
12 **Q. ARE THERE OPERATIONAL EFFICIENCIES TO BE GAINED BY NON-**  
13 **DISCRIMINATORY, COST-BASED ACCESS CHARGES?**

14 A. Yes. For BellSouth to enforce a price differential between "interexchange access"  
15 and "local termination," BellSouth would need to require that all competitors adopt  
16 the same definition of local calling and BellSouth would need to implement auditing  
17 systems to correctly assess its charges. Such systems are not only unnecessary, but  
18 they would cause both BellSouth and the entrant to needlessly incur costs solely to  
19 accomplish an unreasonable result: the continued discrimination between local and  
20 long distance calling.

21  
22 **Q. DOES BELL SOUTH AGREE THAT CALL TERMINATION PRICES**  
23 **SHOULD BE NON-DISCRIMINATORY?**

24 A. Yes. In BellSouth's Comments to the FCC on these same issues (CC Docket No.  
25 96-98, page 63), BellSouth recommended that:

1 The [Federal Communications] Commission should take a  
2 comprehensive view leading to a common model for  
3 interconnection that is not based on classification of carriers  
4 as LECs, IXC's, CMRS providers, or ESPs.  
5

6 Similarly, this Commission should strive to implement a comprehensive cost-based  
7 pricing system which does not discriminate between types of calls or carriers.  
8

9 **Q. IF TERMINATING LOCAL CALLS AND TERMINATING LONG**  
10 **DISTANCE CALLS ARE IDENTICAL, WHY SHOULDN'T THE**  
11 **COMMISSION APPLY ACCESS CHARGES TO LOCAL CALLS?**

12 **A.** The problem is that access charges are significantly inflated over cost. Using these  
13 inflated charges to establish charges for local termination would simply adopt a  
14 "poison both wells" pricing strategy. While the services might be equivalent, the  
15 consequences from the excessive rate levels would not be.  
16

17 Long distance competition has survived despite high access prices for two reasons.  
18 First, incumbent LECs could not provide long distance services and, as a result,  
19 retail price levels reflected that all providers faced the same (albeit high) cost for  
20 this input. Second, long distance prices and access charges are both measured.  
21 Therefore, access costs and revenues both grow or diminish with traffic volumes.  
22

23 Neither of these conditions holds true in the local exchange marketplace. Entrants  
24 will have to compete with BellSouth on day one, and BellSouth's cost to offer local  
25 service is the forward looking, long-run incremental cost of network usage, not the  
26 access charge. Second, many local exchange prices in South Carolina are flat-rated,  
27 and imposing on BellSouth's rivals a cost-structure directly at odds with retail rates

1 will place them at a disadvantage when serving consumers with relatively high local  
2 calling patterns.

3  
4 **Q. HOW SHOULD THE COMMISSION ESTABLISH LOCAL CALL**  
5 **TERMINATION RATES UNTIL IT IS ABLE TO CORRECTLY**  
6 **ESTABLISH ACCESS CHARGES?**

7 **A.** The Commission's ultimate objective should be cost-based termination rates that  
8 ultimately would apply to both local and long distance traffic. However, the  
9 principle advantages of cost-based termination rates cannot be realized until a single  
10 charge can be applied to *all* traffic types, including toll services. Therefore,  
11 implementing an interim bill and keep system may be appropriate. Bill and keep is  
12 the simplest system to implement and its adoption could accelerate entry by  
13 reducing billing requirements and uncertainty.

14

15 **VI. OPERATIONAL BARRIERS TO ACHIEVING CUSTOMER CHOICE**

16

17 **Q. HOW DO OPERATIONAL ISSUES AFFECT CUSTOMERS AND THEIR**  
18 **ABILITY TO BENEFIT FROM LOCAL COMPETITION?**

19 **A.** There are two ways that operational questions will directly impact consumer  
20 perceptions concerning local competition. In order for local competition to be  
21 viewed as a success:

- 22 • it must be easy for *consumers* to change local carriers, at least as easy as  
23 the PIC-change process they are now familiar with, and  
24
- 25 • it must be easy for *carriers* to serve consumers quickly and with a  
26 minimum of network disruption.  
27

1 Only if these conditions are satisfied will the market changes contemplated by the  
2 Act roll out smoothly in the eyes of consumers.

3

4

*A. Supporting Customer Choice*

5

6 **Q. WHY IS IT IMPORTANT FOR OPERATING SYSTEMS TO BE ABLE TO**  
7 **EASILY ACCOMMODATE CONSUMER CHOICES?**

8 **A.** When the Act is fully implemented, today's familiar separation between local and  
9 long distance companies will be replaced by many consumers choosing a full  
10 service provider for both their local and long distance needs. A primary motivation  
11 for full service (i.e., one-stop shopping) competition will be convenience. This may  
12 seem obvious, but a main benefit of full service competition -- i.e., convenience --  
13 cannot be realized if *moving* to a full service provider is inconvenient and disruptive.

14

15 With this in mind, it is useful to compare the relative ease and convenience that  
16 consumers would experience when choosing between BellSouth and any other full  
17 service provider, including their existing long distance carrier. This is the most  
18 relevant comparison because these carriers today share the *same* customer base and  
19 thus most likely are to approach these customers with the goal of becoming their full  
20 service provider.

21

22 **Q. CAN THE EXISTING PROCESSES USED TO IMPLEMENT CONSUMER**  
23 **CHOICES AMONG LONG DISTANCE PROVIDERS SERVE AS A MODEL**  
24 **FOR LOCAL SERVICES?**

1 A. Yes. The process used to transfer a customer to a new long distance company, the  
2 PIC-change process, is automated, inexpensive (the \$1.42 PIC change fee per line)  
3 and sized to handle large demands. Significantly, it is also well tested, having been  
4 used for more than a decade, through countless product introductions, advertising  
5 campaigns, and marketing initiatives. In contrast, the "process" used to change  
6 local providers is unknown and in any environment where a physical circuit  
7 rearrangement is necessary, inherently more complicated and problematic.

8

9 Q. **WHAT MUST OCCUR FOR COMPETITION TO SUCCEED?**

10 A. Consumers must be able to move between local service providers with the same  
11 ease that they now move between long distance carriers. A PIC-change-like  
12 customer migration process must be available both for services resale *and* the  
13 unbundled network element approaches. Without the ability to honor customer  
14 requests to change local service providers inexpensively, the network element  
15 option could only be used to serve selected customers and the advantages of this  
16 option would be limited to the few.

17

18 Q. **DID THE FCC RECOGNIZE THE IMPORTANCE OF EASILY**  
19 **ACCOMMODATING CUSTOMER CHOICE?**

20 A. Yes. In particular, two provisions of the FCC's Rules, assure that consumer choices  
21 can be easily accommodated. First, the FCC Rules require that operating systems be  
22 nondiscriminatory in comparison to the use of these systems by the incumbent LEC  
23 itself. As the FCC explained:

24 We thus conclude that an incumbent LEC must provide  
25 nondiscriminatory access to their operations support  
26 systems functions for pre-ordering, ordering, provisioning,



1 maintenance and repair, and billing available to the LEC  
2 itself. (FCC Order, ¶ 523).  
3

4 Second, Rule 51.319(c)(1)(ii) includes the requirement that wherever the change in  
5 the customer's local service provider is accomplished through a software event (i.e.,  
6 resale arrangements or configurations using unbundled local switching), the change  
7 in a customers' local service provider must occur in an interval no longer than the  
8 interval in which an incumbent LEC transfers end-users between interexchange  
9 carriers.  
10

11 ***B. Ordering Combinations Of Unbundled Network Elements***  
12

13 **Q. HOW CAN UNBUNDLED NETWORK ELEMENTS BE USED TO PROVIDE**  
14 **LOCAL SERVICES WITH THE LEAST DISRUPTION TO CONSUMERS?**

15 **A.** In order for consumers to benefit from competition, carriers must be able to easily  
16 obtain and configure the unbundled network elements that they will use to provide  
17 services. The key to rapid competition and easy customer choice is the ability of  
18 entrants to provide service using unbundled local switching, frequently in  
19 combination with other elements. With unbundled local switching, customers can  
20 be moved between different providers without physically reconfiguring the service  
21 to the customer.  
22

23 **Q. HOW WILL CARRIERS BE ABLE TO MOVE CUSTOMERS RAPIDLY**  
24 **USING COMBINATIONS OF UNBUNDLED ELEMENTS?**

25 **A.** The answer is using the network to move customers without manual changes in the  
26 physical connections to these customers. This condition is satisfied by a network

1 configuration which combines several network elements, including local switching,  
2 to provide service. Customers can easily change among local carriers who are  
3 providing services using the incumbent LEC's unbundled local switching element  
4 because the customer's lines need not be reconfigured to a different switch for  
5 service. This arrangement is sometimes referred to as the "platform" configuration.

6

7 **Q. WHAT IS THE "PLATFORM" CONFIGURATION?**

8 A. The platform configuration is the combined purchase of unbundled switching and an  
9 unbundled loop (frequently in combination with transport and signaling) to form a  
10 basic exchange platform to offer local exchange and exchange access services. By  
11 providing services using a combination of unbundled elements, operational barriers  
12 are reduced.

13

14 **Q. WHAT ARE THE BENEFITS OF THE PLATFORM APPROACH?**

15 A. The platform configuration efficiently uses combinations of network elements,  
16 including combinations as they already exist. Further, customers can easily shift  
17 between local providers using the platform configuration because the existing  
18 exchange line does not need to be reconfigured to provide service. Because the  
19 underlying facility arrangement is unaffected, operational systems should be able to  
20 accommodate market changes with an ease comparable to the PIC-change process  
21 used in the long distance industry.

22

23 The platform approach provides every carrier an ability to design its own services,  
24 constrained only by its own imagination and the inherent ability of the network.

25 Unbundled local switching enables a carrier to purchase switching capacity as a

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generic ingredient and then determine which features and capabilities of the switch it will offer as part of its finished local services.

In addition, the platform configuration allows each carrier the flexibility to provide its own local exchange services to end-user customers, and exchange access services to other carriers, achieving the same status and opportunities as any other local telephone provider. Competition across all prices and services would then be possible.

**Q. DO THE FCC RULES REQUIRE BELL SOUTH TO PROVISION COMBINATIONS OF NETWORK ELEMENTS, INCLUDING THE "PLATFORM" CONFIGURATION DESCRIBED ABOVE?**

**A.** Yes. The rules clearly recognize the rights of new entrants to order any combinations of network elements, including combinations of elements as they are presently configured in BellSouth's network. Specifically, Section 51.315 requires that an incumbent LEC:

(a) shall provide network elements in a manner that allows a requesting carrier to combine such elements;

(b) shall not separate requested network elements that the LEC currently combines;

(c) shall perform the functions necessary to combine unbundled network elements in any manner, even if

1 those elements are not ordinarily combined in its  
2 network, if the combination is technically feasible and  
3 will not impair other carriers from obtaining access or  
4 interconnecting.

5  
6 These rules enable an entrant to combine local loops, local switching and transport  
7 and termination to form an exchange platform to offer local exchange (to end users)  
8 and exchange access (to other carriers) service. This flexibility is essential if  
9 consumers are to rapidly benefit from the introduction of local competition.

10  
11 Of course, as noted at the beginning of this Section, *none* of the benefits of local  
12 competition are possible unless consumers are able to easily implement a choice in  
13 carriers. That is why it is so important to implement the operating systems that are  
14 described further in the testimony of AT&T Witness Jim Carroll.

15  
16 **VII. SUMMARY**

17  
18 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 **A.** The Commission's decision in this proceeding may be the most significant in its  
20 history as a regulator of telecommunication services. The Act has the potential of  
21 bringing substantial competitive benefits to South Carolina consumers, providing  
22 them, for the first time, direct say in the services they are offered through the power  
23 of choice. Realizing these benefits, however, can occur only if the entry tools  
24 described in the Act become practical, working vehicles that entrants may use to  
25 provide that choice.

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This, in a sentence, is the fundamental objective of this arbitration -- to provide AT&T and, other new entrants the tools they will need to provide local exchange services in competition with BellSouth. That AT&T's request encompasses the full range of entry tools provided by the Act increases the complexity of the proceeding, but it also promises to provide greater and broader benefits than the previous limited requests that have come before this Commission to date.

What do new entrants need? Simply this: the ability to resell wholesale equivalents of BellSouth's retail services at wholesale rates; the ability to purchase and combine a core list of unbundled network elements, correctly priced at forward looking, long-run incremental cost; and the ability to transport and terminate traffic at cost-based, reciprocally applied, charges. Each must be supported by an operational infrastructure designed for a multi-vendor local marketplace. This is what the Act provides for, this is what new entrants are entitled to, and this is what this Commission must see gets implemented.

Why? First and most obviously, to give South Carolina consumers choice. But also, because the Act portends BellSouth's eventual entry into the long distance market. There, BellSouth will have access to wholesale long distance services and network elements at competitive prices. There, BellSouth will find an operational infrastructure specifically designed to support a multi-vendor market, including systems to easily implement customer choices. In short, BellSouth will find the long distance equivalent to all that the Act now requires that BellSouth offer others.

1       The Commission has long recognized its role as a surrogate for competition.  
2       Historically, this role has been limited to the retail market. However, under the Act,  
3       the Commission's role as a competitive surrogate shifts to the wholesale level,  
4       because it is there that BellSouth's network monopoly poses the greatest risk. The  
5       Commission's role now includes making this network available so that multiple  
6       carriers may use it to offer retail services to consumers.

7  
8       It is this final linkage to consumer prices that the Commission should not lose sight  
9       of as it approaches the issues in this arbitration. Establishing the correct carrier-to-  
10      carrier arrangements is complex, but, again, the ultimate beneficiaries will be South  
11      Carolina consumers.

12

13    **Q.    DOES THIS CONCLUDE YOUR TESTIMONY?**

14    **A.    Yes.**

SUMMARY BY MR. GILLAN:

GOOD AFTERNOON. MY NAME IS JOE GILLAN. IT'S A PLEASURE TO BE HERE IN SOUTH CAROLINA AGAIN. THE PURPOSE OF MY TESTIMONY IS TO NOT GET INTO REALLY THE SPECIFIC DETAIL. THE NUMBER OF THE ISSUES THAT YOU WILL HEAR TODAY, BELIEVE ME, OVER THE NEXT SEVERAL HOURS I THINK YOU WILL HEAR ENOUGH DETAIL FROM THE REMAINING WITNESSES. RATHER, THE PURPOSE OF MY TESTIMONY IS TO TRY AND PROVIDE SOME BASIC CONTEXT TO UNDERSTAND WHAT ARE THE ISSUES HERE BEFORE YOU.

I'D LIKE TO START THAT PROCESS BY POINTING OUT, EVEN THOUGH THIS APPEARS TO BE A CASE BETWEEN BELLSOUTH AND AT&T, THAT'S ACTUALLY A MISNOMER. WHAT IS REALLY GOING ON HERE IS THAT THE TELECOMMUNICATIONS ACT PROVIDED ENTRANTS, ALL ENTRANTS, CERTAIN RIGHTS AND AT&T IS THE FIRST CARRIER TO ASK THAT ITS RIGHTS BE IMPLEMENTED. SO WHILE THE DEBATE MAY BE COINED TO YOU IN TERMS OF THIS IS AT&T VERSUS BELLSOUTH, I THINK IT'S MORE APPROPRIATE TO THINK ABOUT IT IN TERMS OF YOU'RE IMPLEMENTING THE ACT OR IMPLEMENTING THE PORTIONS OF THE ACT THAT WILL ENABLE ENTRY.

THE SECOND GENERAL COMMENT IS THAT, AS I SAT HERE AND LISTENED TO BELLSOUTH'S OPENING STATEMENT, I THINK THERE'S A LOT OF THINGS I COULD AGREE

1 WITH THEM ON. WHERE WE PROBABLY HAVE DISAGREEMENT IS HOW  
2 DO WE GET TO THE END RESULT. BELLSOUTH TOLD YOU AT THE  
3 FIRST POINT THAT THE ACT IS ABOUT ALLOWING CARRIERS INTO  
4 EACH OTHER'S MARKETS. ON THAT WE AGREE. BELLSOUTH  
5 SOMEDAY WILL OFFER BOTH LOCAL AND LONG DISTANCE SERVICES;  
6 AND FOR THIS ACT TO BE A SUCCESS, WHAT THAT MEANS IS THAT  
7 OTHER LONG DISTANCE CARRIERS MUST ALSO BE ABLE TO OFFER  
8 LOCAL SERVICES. WHEN BELLSOUTH GOES TO OFFER ITS LONG  
9 DISTANCE SERVICES, IT WILL FIND ALL THE THINGS THAT IT  
10 NEEDS TO BECOME A LONG DISTANCE CARRIER OUT THERE IN THE  
11 MARKETPLACE TODAY BECAUSE WE'VE HAD TEN YEARS TO OPEN  
12 THAT MARKET TO COMPETITION. THERE ARE NO BARRIERS TO  
13 ENTERING THE LONG DISTANCE MARKET. BELLSOUTH WILL BE  
14 ABLE TO DO IT RAPIDLY, COMPLETELY, QUICKLY, UBIQUITOUSLY  
15 THROUGHOUT ITS ENTIRE REGION. THE ACT IS ABOUT CREATING  
16 THE TOOLS THAT OTHERS WILL USE TO ENTER THAT MARKET AS  
17 WELL.

18 WELL, WHAT ARE SOME OF THOSE  
19 TOOLS? BEFORE I EVEN START THAT, WHY SHOULD YOU CARE?  
20 WHY SHOULD YOU CARE ABOUT THESE VERY COMPLICATED CARRIER  
21 RELATIONSHIPS? I THINK IT COMES DOWN TO ONE THING. WHAT  
22 CARRIERS ARE ABLE TO BUY IS GOING TO DECIDE WHAT  
23 CONSUMERS ARE GOING TO PAY TOMORROW. THIS COMMISSION  
24 LIKE OTHERS IN THE NATION HAVE ALREADY ADOPTED A SYSTEM



1 OF REGULATION FOR BELL SOUTH THAT WILL PERMIT IT TO  
2 RESPOND IN A MORE COMPETITIVE ENVIRONMENT. IN LESS THAN  
3 THREE YEARS, BELL SOUTH WILL BE IN A POSITION TO BEGIN  
4 RAISING LOCAL RATES TO SOUTH CAROLINA CONSUMERS. THE  
5 ONLY WAY TO PROTECT THOSE CONSUMERS FROM RATE INCREASES  
6 IS TO MAKE SURE THAT THERE ARE OTHER PROVIDERS OUT THERE  
7 THAT WILL TAKE THEIR BUSINESS, SO THAT THE THREAT OF A  
8 CUSTOMER GOING TO A COMPETITOR KEEPS BELL SOUTH FROM  
9 RAISING ITS RATES, BECAUSE UNDER THE TERMS OF ITS  
10 REGULATION PLAN IT CAN BEGIN THAT IN JUST A FEW YEARS.

11 NOW HOW WILL PEOPLE BE SERVED IN  
12 THE FUTURE? MR. LIGHTSEY IDENTIFIED THAT THERE ARE THREE  
13 BASIC TECHNIQUES IN THE ACT THAT OTHERS WILL EXPLAIN TO  
14 YOU IN MORE DETAIL. THERE IS THE TECHNIQUE OF BUILDING  
15 YOUR OWN NETWORK. IF YOU BUILD YOUR OWN NETWORK, YOUR  
16 CUSTOMERS WILL STILL WANT TO CALL CUSTOMERS IN BELL SOUTH,  
17 SO YOU MUST INTERCONNECT THESE NETWORKS SO YOUR CUSTOMERS  
18 CAN CALL THEIRS. THERE'S THE TECHNIQUE OF RESALE, BUYING  
19 BELL SOUTH'S SERVICES AND RESELLING THEM; AND THERE'S THE  
20 TECHNIQUE OF USING NETWORK ELEMENTS.

21 LOOKING AT EACH ONE OF THESE IN  
22 JUST A LITTLE BIT MORE DETAIL:

23 RESALE - RESALE IS THE SIMPLEST  
24 ENTRY TECHNIQUE IN THE ACT. IT BASICALLY SAYS THAT AN